

Message Text

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SUBJECT: ITC YEAR-END REVIEW AND OUTLOOK FOR 1977

REF: OTTAWA A-66, JANUARY 30, 1976

1. SUMMARY: IN SOMEWHAT PREACHY NEWS RELEASE OF JANUARY 6, DEPARTMENT OF INDUSTRY, TRADE AND COMMERCE (ITC) REVIEWED 1976 ECONOMIC SITUATION AND GAVE PROSPECTS FOR 1977. ACCORDING ITC, 1976 WAS YEAR OF "MEASURED ACHIEVEMENTS," WITH REDUCTION IN INFLATION, RECOVERY IN INTERNATIONAL MERCHANDISE TRADE BALANCE, SOME GROWTH IN INDUSTRIAL OUTPUT AND RECOVERY IN HOUSING CONSTRUCTION. BUSINESS PROFITS WEAK, HOWEVER, AND CAPITAL EXPENDITURES INHIBITED. FOR 1977, ITC PREDICTS SLOWER GROWTH IN INTERNATIONAL TRADE, HIGH UNEMPLOYMENT, "RELATIVELY WEAK" CAPITAL INVESTMENT, AND INFLATION "ONLY MODERATELY" BELOW 1976 LEVELS. REPORT ENDED WITH SERMON ON ECONOMIC UNDERSTANDING. END SUMMARY.

2. ON JANUARY 6, DEPARTMENT OF INDUSTRY, TRADE AND COMMERCE (ITC) ISSUED PRESS RELEASE ON 1976 YEAR-END REVIEW AND OUTLOOK FOR 1977. REPORT ALSO WENT BACK TO 1975 TO GIVE RATIONALE FOR GOC CONTROLS PROGRAM AND ENDED WITH CALL FOR "PARTICIPATION BY ALL GROUPS IN SOCIETY IN THE SHAPING OF ECONOMIC POLICY."

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3. REPORT BEGINS WITH RECAP OF WORLD RECESSION IN 1974 AND 1975 WITH COMMENT THAT "CANADIANS HAVE BEEN AMONG THE MOST FORTUNATE" SINCE RECESSION IN CANADA "RELATIVELY MILD." HOWEVER, CONCERN ABOUT "DISPARITY" BETWEEN INFLATION RATES IN CANADA AND U.S. IN 1975 AND HIGHER WAGE SETTLEMENTS IN CANADA THREATENING COMPETITIVE POSITION CAUSED GOC "RELUCTANTLY" TO IMPOSE RESTRAINT PROGRAM IN OCTOBER 1975.

4. CONTROLS PROGRAM, ACCORDING ITC, HAS ACHIEVED FIRST YEAR OBJECTIVES, E.G., REDUCTION IN CPI INCREASE, EROSION OF COMPETITIVE POSITION "LARGELY ARRESTED," AND IMPROVED TRADE BALANCE. HOWEVER, CORPORATE PROFIT POSITION "ERODED" IN 1976, STATES RELEASE, AND THEN PREACHES SHORT SERMON ON NEED FOR CORPORATION PROFITS. "INADEQUATE BUSINESS PROFITS COULD DETER BUSINESS FROM APPROPRIATE LEVELS OF INVESTMENT WITH CONSEQUENT REDUCED PRODUCTIVITY AND REAL WAGES."

5. IN REVIEWING 1976 ECONOMIC PERFORMANCE, ITC POINTS TO CONSIDERABLE IMPROVEMENT IN CANADA'S MERCHANDISE TRADE BALANCE, PARTICULARLY DURING FIRST HALF OF 1976, AND STATES "GAINS WERE STRONGEST IN OUR TRADE WITH THE UNITED STATES AND PARTICULARLY IN MOTOR VEHICLES AND PARTS." "OVERALL, IT IS EXPECTED THAT CANADA'S MERCHANDISE TRADE SURPLUS FOR 1976 WILL BE AROUND \$1 BILLION."

6. DEFICITS IN NON-MERCHANDISE TRADE INCREASED, HOWEVER, WITH "MAJOR DETERIORATION" IN TRAVEL ACCOUNT AND INTEREST AND DIVIDENDS. TURN-AROUND IN MERCHANDISE TRADE SHOULD, HOWEVER, RESULT IN \$4.25 BILLION DEFICIT IN CURRENT ACCOUNT COMPARED TO \$5 BILLION IN 1975.

7. ALTHOUGH INDEX OF INDUSTRIAL PRODUCTION HAS SHOWN "LITTLE INCREASE SINCE MAY," ON AVERAGE IT SHOULD BE "ABOUT 6 PERCENT" ABOVE 1975. MAJOR STRENGTHS WERE IN TRANSPORTATION EQUIPMENT INDUSTRIES AND FOREST INDUSTRIES. HOUSING STARTS UP "ABOUT 25 PERCENT" FOR FIRST NINE MONTHS OF 1976 COMPARED TO SAME 1975 PERIOD. PRODUCTION INCREASES NOT SUFFICIENT TO REDUCE UN-

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EMPLOYMENT WHICH EXPECTED AVERAGE 7.2 PERCENT IN 1976. ALSO, LOW GROWTH IN OUTPUT "INHIBITING" CAPITAL INVESTMENT, AND "TOTAL BUSINESS INVESTMENT WAS UP ABOUT 3 PERCENT IN REAL TERMS" LARGELY BECAUSE OF INCREASED HOUSING STARTS.

8. ON ECONOMIC PROSPECTS FOR 1977, ITC IS NOT SANGUINE SINCE "NEW YEAR OF 1977 OPENS IN AN UNCERTAIN INTERNATIONAL ENVIRONMENT." EXPECTATIONS OF RATE OF RECOVERY IN INDUSTRIALIZED WORLD HAVE BEEN REVISED DOWNWARD SINCE MID-1976, AND SLOWER GROWTH WILL ADVERSELY AFFECT CANADIAN EXPORTS. REDUCTION OF "EXTERNAL STIMULUS" TO CANADIAN ECONOMY "MAY BE TRANSLATED INTO CONTINUED HIGH LEVELS OF UNUSED INDUSTRIAL CAPACITY AND HIGH UNEMPLOYMENT." CAPITAL INVESTMENT "RELATIVELY WEAK" IN 1977 AND INCREASE IN REAL LEVELS OF PRIVATE CONSUMPTION "LESS VIGOROUS." CANADIAN INFLATION RATES MAY CONTINUE EXCEED THOSE IN U.S. BUT "LIKELY LOWER" THAN AVERAGE FOR INDUSTRIAL COUNTRIES AND "ONLY MODERATELY BELOW 1976 LEVELS."

9. IN FINAL PARAGRAPHS OF PRESS RELEASE, ITC AGAIN TURNS

SERMONIZER IN SPEAKING OF "LONGER-TERM CHALLENGE." SINCE CANADA IS "AMONG RICH AND PRIVILEGED NATIONS," ITC CLAIMS IT MUST "CONTINUE TO PLAY A LEADING ROLE IN A MORE BALANCED DISTRIBUTION OF THE WORLD'S WEALTH AMONG THE WORLD'S PEOPLES." DOMESTICALLY, ITC THEN DWELLS ON "SUBSTANTIAL DIVISIONS" WHICH "CONTINUE AMONG ECONOMIC GROUPS AND AMONG REGIONS." ITC REFERS TO "CURRENT SENSE OF ALIENATION AND LACK OF MUTUAL UNDERSTANDING" IN CANADA, WHICH ITC ATTRIBUTED TO "INCREASED UNCERTAINTY AND INCREASED CONCERN ABOUT THE FUTURE." RELEASE ENDS WITH CALL FOR "GREATER SENSE OF PARTICIPATION OF ALL GROUPS IN THE ESTABLISHMENT OF GOALS FOR OUR SOCIETY," AND IN "SHAPING ECONOMIC POLICY." ENDERS

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